



THE ROYAL BANK OF CANADA

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Canada in the Post-Controls Period

An address by
W. Earle McLaughlin,
Chairman and President
The Royal Bank of Canada

Today I would like to talk to you about Canada in the post-controls period. By that I mean Canada in the period, some time in the future, when we can operate once more without the encompassing regulations of the Anti-Inflation Board.

This so-called "post-controls" era has been discussed extensively in a working paper produced by our government in Ottawa, and titled: "The Way Ahead: A Framework for Discussion." That paper is a most interesting statement of the government's own diagnosis of our inflation problem, and some options for the future.

Many of you in this audience have undoubtedly read the working paper. In my remarks today I would like to share with you my own view of the way ahead for Canada as we emerge from the Anti-Inflation Board period of controls.

First, let's examine the inflation record.

The Inflation Record

I discussed the emerging inflation crisis in my address at the Bank's annual meeting in January of 1974. At that time the rise in prices was beginning to accelerate. I emphasized that we should distinguish among three types of price increases: imported inflation; changes in relative prices, such as energy prices, which aren't really inflation at all; and the residual pure domestic inflation. Initially, our problem was imported inflation, plus a radical change in relative prices. Then, pure domestic inflation caught hold.

By the autumn of 1975, when the AIB controls were imposed, the consumer price index was rocketing ahead at 10.6 per cent per year. Now some 15 months later, the index is rising only 5 to 6 per cent. On the wage front, only a year ago we were seeing contract settlements of about 17 per cent per year. Now, wage settlements are averaging just less than 10 per cent per year. These numbers are still unacceptably high, especially when, if we exclude food, consumer prices are still increasing 8 to 9 per cent per year, and especially when wage increases are still well above those in the U.S. But the trend is encouraging. Some would suggest that the AIB has been particularly effective since the inflation battle — although not yet won — seems to be turning in our favour. I, for one, believe that we would be about where we are today even in the absence of AIB. However, let the scholars have

their harmless fun debating that issue in the academic journals. The more important question is: where does AIB go from here?

I support the apparent intention of the government to terminate the Anti-Inflation Program in or before 1978. I also appreciate, however, that the dismantling of controls — whenever this may take place — may release pent-up inflationary pressures. The dismantling of AIB must therefore be accomplished in an environment in which voluntary compliance by labour, by management and by government, in the spirit of the anti-inflation fight, will continue.

Here, however, several truths unfortunately come home:

- It is much easier to impose controls than to lift them;
- "Now" — whenever "now" is — is never the opportune moment to abandon controls; and
- Some of the most ardent critics of controls soon become addicted to them.

It is a sad but illuminating commentary on the perniciousness of controls that some businessmen who objected to AIB when it was first imposed are now loathe to see the controls program lifted. I say "sad" because this is hardly in the spirit of the free marketplace whose virtues, in principle, these same businessmen extol. It is illuminating, because it demonstrates how quickly we can succumb to the deceptively cosy shelter of direct government regulation.

So, what are our options? Broadly speaking there are three:

- We can keep controls on indefinitely. The only problem here is that this is a sure way to destroy the economy. It is said that rent controls, in their capacity to destroy cities, are matched only by the atom bomb. One could say the same thing about wage and profit controls, and their capacity to destroy the total economy.

- Alternatively, we can phase out the controls over a period of time — just as the Americans did during their abortive experiment with this sort of regulation. The only problem here is who to decontrol first and who to decontrol last — and what destructive distortions do such choices set into motion?

• Or, we can take a deep breath and abandon controls once and for all, in one fell swoop. Let the government declare the war won, take credit — whether deserved or not — for having provided a significant measure of price relief, and jettison the entire complex AIB apparatus, and the sooner the better. This is the course of action I favour, with one significant exception: the public service wages area.

Let me explain why I would make that one exception. One of the principal reasons to impose controls in the first place was undoubtedly the runaway nature of wage increases in the public sector. To prevent this from recurring it would be wise to consider controlling these wage increases for a while longer, or alternatively, to tie further increases in the public sector to wage settlements in similar wage categories in the private sector.

Fortunately, for most industries the next six to nine months will provide the most opportune time for dismantling the AIB apparatus — or at least to disarm it by transforming it into a purely monitoring and reporting activity. I say this because there is likely to be a high degree of slack in the economy over the next six to nine months, resulting in a natural slowing of wage and price demands, and a greatly lower risk of a renewed wage-price explosion.

Another point to consider is that several federal-provincial agreements which make up part of the program are unlikely to be extended by some provinces. Unless AIB is abandoned, the result would be a helter-skelter state of affairs — some provinces controlled and others not.

The Causes of Inflation

How did we get into our present plight? The government's paper outlined, in broad terms, the various diverse causes of inflation. I agree with most of this analysis. However, I disagree with the implication that governments are largely passive or "reactive" agents in the inflation process. Prodded by imaginative and ambitious civil servants, our elected governments have become increasingly activist — the present federal government particularly. I suggest through the multiplicity of programs which has emerged, government itself has been a major contributor to rising expectations, and this has been inflationary. More and more Canadians have been led to believe that they can

get a "free ride" on the system, without realizing that someone in the system — perhaps even themselves — would sooner or later have to pay. Too often, the means of payment has been inflation. Clearly, governments must define their welfare objectives more precisely, and they must inform the public of the real costs that unrestrained expansion of social programs entail.

In one other important respect as well, my own diagnosis of our inflation problem differs from the government's. That is when they point to "market power" as a major cause of inflation. I appreciate that there are agents in the economy that may abuse the competitive operation of the market. For example, in my opinion, it is most urgent for the government to respond to the most flagrant evasion of market discipline which occurs in the public sector among many public service unions, particularly those engaged in providing essential services. New approaches are urgently called for in this area, if inflation is to be arrested once and for all.

Nor should we hold the private sector blameless in the process of inflation. Confrontation has pervaded labour-management, labour-government, and government-business relations in the past several years. Often, these are purely selfish power struggles over who is going to get what shares of the income — and inflation is again the result. The problem in this country is that we seem to be increasingly preoccupied with disputes over who is to get what share of income rather than co-operating to increase incomes over-all, to the benefit of everyone. We urgently need to reduce the level of tension and hostility within the economic fabric of Canada. This is, of course, not an easy task. Business people have a responsibility to support all initiatives, government and private, which seek to encourage a community of interest among all participants in the economy.

Yet, when all is said and done, effective short-term economic policies are probably the most crucial factor in the success or failure of the post-controls period. Specifically, if prudent fiscal and monetary policies are not pursued at the federal level, and supported by provincial governments and agencies, and if the proper example of thrift and caution in spending programs is not set by governments, then no amount of self-discipline in the private sector, by labour or management, and

no amount of consultation among management, labour, and government will accomplish anything.

The leadership role that governments must play in guiding Canadians through the pending post-controls period must be based on clearly defined economic policies. Essential to the exercise of this leadership role, is the need for governments at all levels to exercise fiscal restraint, by which I mean lower expenditures and lower taxes, in order to convince Canadians that the governments are endeavouring to manage their operations efficiently, and without waste.

Ideological Position of Government

Most Canadian business people, I am sure, applauded the ideological position put forth by the government in the working paper. It suggests the need for a rationalization and simplification of the vast array of government programs, less market intervention, and a substantial reduction in the rate of growth of government expenditures. We hope that the government is seriously committed to these objectives.

More than ever before in our history, a fundamental reassessment of the role of the federal government is now necessary if we are to meet the challenges which face Canada. Clearly, that role should not be to try to direct or control every nuance of national life, in every industry in every corner of the land.

Furthermore, most business people, I am sure, welcome the proposed steps to return to the private sector responsibility for providing many goods and services now produced by government-owned enterprises and government programs. This would help restore the shaken confidence of the private sector. But action in this regard will be more convincing than the most impressive array of discussion papers.

In this respect, I must interject at this point that if indeed government philosophy is to rely more heavily upon the market system and less upon direct regulation and bureaucracy in managing the economic life of the nation — then I must be concerned about an immediate departure from it: Bill C-16. This bill, which is somewhat inappropriately called the Borrowers' and Depositors' Protection Act, if passed in its proposed present form, would be a signal departure from reliance

upon the existing free market system.

But to get back to the major issue, the business community cannot have it both ways. If we in this country are to rely more upon the marketplace than business itself must be willing to compete — harder than we have ever competed before — in that marketplace. And we must accept tough-minded regulatory initiatives by the government, aimed at promoting stiffer competition. At the same time, we in business must resist those continuing government initiatives which tend to ensnare markets in a web of direct intervention. We must be consistent: favouring regulation which promotes competition, while fighting regulation which stifles competition.

The Investment Outlook

There is another reason to dismantle AIB: the pitifully weak outlook for business capital expenditures in the Canadian economy. Between AIB, FIRA, high labour costs, sluggish demand at home and abroad, and high interest rates, few business persons — foreign or domestic — are inclined to expand in Canada at the moment. The dismantling of AIB would go a long way toward restoring the confidence of the business community, and in helping to stimulate those badly needed private investment expenditures.

We must pay more attention to the question of investment incentives. While the flow of investment spending in Canada was reasonably strong up through 1975, growth since then has virtually ceased. Furthermore, if large government projects are excluded from the totals, private investment spending has declined absolutely — which is surely contrary to the government's own stated philosophy of increasing the proportionate share of private as opposed to government activity.

Other factors which impede investment programs are the generally low corporate liquidity and profit growth, and the impact which inflation has had on replacement costs, the over-reporting of profits, and the resulting over-payment of corporate income taxes. When one adds the new uncertainty created across the entire country by the Quebec election results, it appears that at best, business may adopt a "wait and see" attitude which will neither enhance investment, nor growth, nor productivity in the longer term. Clearly, government policies must be re-shaped in full recognition of this worrisome situation.

To date, shortages in domestic supply cannot be given much share of the blame for the inflationary price spiral. But this could change in the years ahead because of inadequate investment today for the supplies of tomorrow. Increased capital spending must take place, particularly in the fields of energy and resource supply. Here one of the major challenges will be the need to generate sufficient domestic savings. How does the government plan to stimulate private savings? How does it plan to restore vigor to the presently very sick market for private equity capital? What specific measures does the government plan to take to create a favourable investment climate in Canada during the post-controls period? Any post-controls program must answer these vital questions.

Other Policy Areas

I would like to touch upon several other areas, all discussed in the government's own paper, where some clarification of government intent is needed. First, there is the question of foreign investment. Everyone would acknowledge that a substantially higher proportion of our total resources will be allocated to the development of higher cost energy in the future. This will necessitate huge capital expenditures and substantial sums of foreign capital will have to be raised. Yet despite this, the government's position towards foreign investment is ambiguous. Any doubts as to the government's intentions should be eliminated by the establishment of a clear and consistent policy, favourable to foreign investment, both in the short and long-term.

A second area of uncertainty is the question of corporate size and concentration — whether measured in the absolute sense or by share of market. It is acknowledged by most Canadians that we must become increasingly more competitive in the international economy. This implies operations on a larger scale. Yet some aspects of current government policy suggest that the growth of corporate organizations must somehow be restrained. Make no mistake: through our lending programs the Royal Bank provides massive financial support for the objective of encouraging small and medium-sized business enterprise. But even granting the high priority concern which the building up of smaller and medium-size business

must receive, it does not follow that governments can accomplish this by cutting the larger firms "down to size". It is both unrealistic and damaging to Canada's prospects to contemplate policies that will discourage natural, healthy and responsible corporate growth, regardless of scale, as long as competition in the marketplace is preserved. We hope the Royal Commission on Corporate Concentration will help the government clarify its policy so that Canada may be assured the opportunity of competing effectively in the tough trading world of the 80's.

A third area of policy concern derives from the clash between declining productivity and rising expectations. I would agree that vigorous measures must be adopted to encourage productivity. And I would suggest that one of the most effective means of achieving this is for governments to provide greater rewards for real growth and accomplishment in the private sector, while at the same time reducing the proportionate share of increased output which is taxed away at all levels. Surely the example of Britain should be studied by all Canadians, as a case history of lagging productivity under the yoke of various government spending programs which, even though individually worthy in their own right, in total destroy incentives for hard work and efficiency.

Recommended Program

But let us return to the core issue: with what should the government replace AIB? I have already given you part of my answer: simply abandon controls in the private sector within the next six to nine months, and rely upon open competition in free markets as the substitute.

Now, what can the government do about any lingering inflationary pressures which may exist? The government can provide leadership by making direct appeals to all economic groups in Canada for discipline. It can engage in broadly based consultation with all sectors of the economy, restoring badly frayed lines of communication. Above all it can set an example of "belt-tightening" for all Canadians — particularly in the key area of public sector wage settlements — settlements which were so instrumental in triggering the explosion of wage demands in the first place.

The government's discussion paper has received — and will continue to receive — many comments offering both support and criticisms. Obviously, the issues are far from simple. If they were simple we wouldn't have a problem.

Private business in Canada has been demanding greater consultation with government on issues of public policy. The paper is one constructive move toward more active consultation — an activity which we must all support. I hope that serious consultation will continue.

No one should expect unanimity to emerge, because there isn't going to be any. The real benefit to be achieved is that the Government of Canada will gain from a broad spectrum of individuals and organizations, the advantage of ideas and opinions, on which constructive policy can be built. And business, labour, and other groups, will gain a broader understanding of the complex problems facing the nation, when we emerge from wage and profit controls. Achievement of a better understanding of the basic issues is a healthy, much-needed development. Serious consultation among all sectors of Canadian life is increasingly vital as we face serious and continuing challenges to national unity in the months ahead.

Canada has the people and the resources. We can achieve our full potential if we but make a greater effort to work together as Canadians.

W. EARLE McLAUGHLIN
Chairman and President

Minutes of the 108th Annual General Meeting of the Shareholders

Montreal, January 13, 1977

The 108th Annual General Meeting of the Shareholders of The Royal Bank of Canada was held at the Head Office of the Bank in Montreal on Thursday, January 13, 1977 at 11:00 a.m. The Chairman and President of the Bank, Mr. W. Earle McLaughlin, acted as Chairman of the meeting and the Secretary of the Bank, Mr. L. A. Taylor, acted as Secretary of the meeting. The Chairman declared that as notice of the meeting had been duly given and a quorum was present, the meeting was properly convened. The Chairman appointed Messrs. Antoine Y. Lamarre and James W. Knox to act as Scrutineers.

It was moved by Mr. Claude Pratte, Q.C. and seconded by Mr. P. N. Thomson that the Minutes of the last Annual General Meeting of the Shareholders of the Bank held on January 8, 1976, a copy of which was sent to each Shareholder as required by the Bank Act, be taken as read and be approved.

The Chairman then stated that the motion was open for discussion. There being no discussion, the Chairman then put the motion to the meeting. A ballot was taken and, upon receiving the Scrutineers' Report of the balloting, the Chairman declared the motion duly carried.

The Chairman referred to the Annual Statement, copies of which had been distributed to the Shareholders, and to the Directors' Report, and called upon the Secretary to read the Directors' and Auditors' Reports.

Directors' Report

The Directors of The Royal Bank of Canada have pleasure in submitting to the Shareholders the one hundred and eighth annual Directors' Report as well as the Annual Statement for the financial year ended October 31, 1976, which includes the Statement of Assets and Liabilities of the Bank, the Statements of Revenue, Expenses and Undivided Profits, and of Accumulated Appropriation for Losses of the Bank, the Statements of Assets and Liabilities of Controlled Corporations and the Auditors' Reports with respect to those statements.

In accordance with the usual practice, the assets of the Bank have been carefully valued and provision made for all bad or doubtful debts.

During the year fifty-five branches including dependent and sub-branches were opened and eleven were closed in Canada; one was opened and two were closed outside Canada. The total number of branches and sub-branches in operation on October 31, 1976 was 1,567 of which 1,474 were in Canada and 93 were in other countries; in addition, the Bank has a financial interest in 90 subsidiaries and affiliates throughout the world.

The Directors thank the over 34,000 members of the staff in Canada and abroad for their contribution to the growth and progress of the Bank during the past year.

Montreal
January 13, 1977

Respectfully submitted
(signed) W. Earle McLaughlin
Chairman and President

The Auditors' Reports were then read by the Secretary (these reports appear on pages 29 and 33 in the Annual Report).

Before calling for the adoption of these reports Mr. McLaughlin said:—

I have to advise with regret that because of the age limitation stipulated in the Bank Act, two directors are not eligible to be nominated to the board later in this meeting. I refer to Mr. E. P. Taylor, who has been a director since January, 1950, and Mr. A. L. Penhale, since January 1960. These two distinguished gentlemen, who have served for 27 and 17 years respectively, have made significant contributions to the Bank. The necessity for their leaving the board after so many years of outstanding service is to be regretted, but such is the law. I would like to extend to them sincere thanks for so many years of devotion to the interests of the Bank.

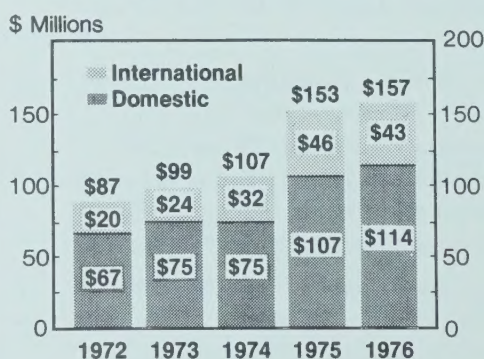
During the year three new directors were appointed to the board. Mr. A. M. Runciman of Winnipeg, on February 25th, Mr. G. Campbell Eaton of St. John's on September 9th, and Mrs. Mitzi Dobrin of Montreal, on November 30th. We welcome them to membership on this board.

Mr. McLaughlin then addressed the meeting (the text of his address will be found on pages 1 to 5 of the Proceedings). He then called upon Mr. Rowland C. Frazee, Executive Vice-President and Chief General Manager, to address the meeting. (A fuller Report on the Year's Operations by Mr. Frazee is presented on pages 5 to 24 of the Annual Report.)

In presenting my report on the year's operations this morning, I will touch first on some of the financial highlights of the 1976 fiscal year. Numbers and ratios, however, are only part of the story. To give fuller meaning and perspective to the results and dimensions they reflect, I will also outline briefly some of the significant issues, challenges, problems and opportunities in a variety of areas that impacted on the Bank's performance last year.

In 1976, the Bank's after-tax balance of revenue was \$157 million, 3% higher than the previous year. These earnings were achieved despite the fact that the operating environment proved substantially more difficult than the exceptionally favourable conditions that prevailed in 1975.

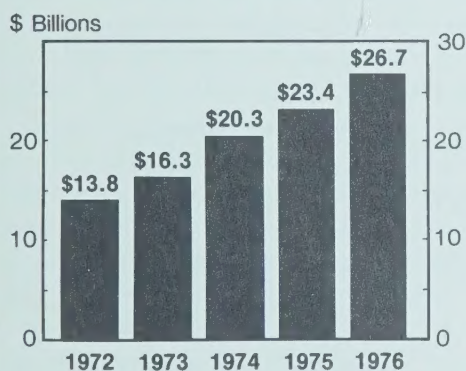
Balance of Revenue After Tax



As the first chart shows, the 1975 growth in earnings was extraordinary. It was caused by a rapid expansion in volumes combined with unusually wide interest rate spreads. In 1976, the growth in volumes moderated and spreads returned to more normal levels. However, even with the relatively small increase in earnings in 1976, the Bank's average annual rate of growth in after-tax earnings over the last five years has been 17%.

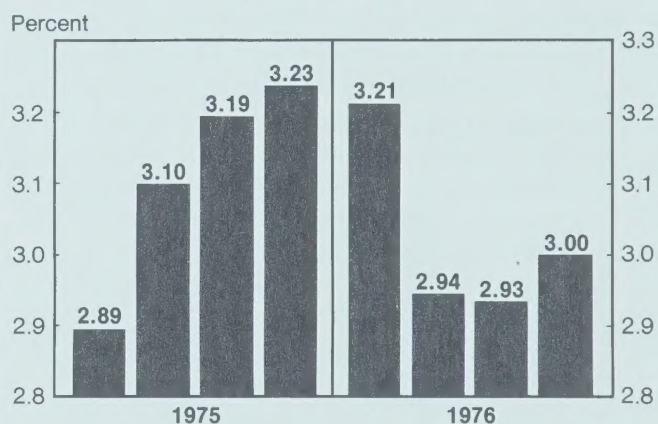
To put the relative contribution of our domestic and international operations in perspective, domestic earnings at \$114 million increased \$7 million in 1976 while international earnings at \$43.5 million were down \$3 million. 72% of total earnings were domestic, and 28% international, a relationship which has not changed materially during the last five years.

Total Assets
Annual Average



Business volumes of the Bank, measured by annual average total assets, were \$26.7 billion in 1976, an increase of 14%. Total assets reached \$28.8 billion by the fiscal year-end. Over the last five years, assets have grown at an average annual rate of 17%, the same as the rate of increase in earnings.

Spread (Net Interest Revenue)
as a Percent of Total Assets
(Fiscal Quarters)

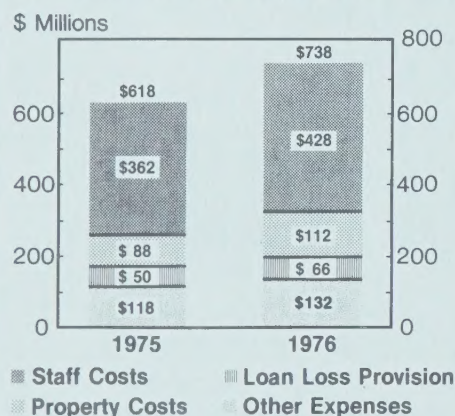


The major portion of the Bank's revenues comes from net interest earnings. This is the difference between the interest charged to borrowers, and that paid to depositors and debenture holders. In 1976 these earnings, or "spread", amounted to \$807 million, an increase of 11%. The chart shows how spread, expressed as a per cent of total assets, declined sharply from a high of 3.23% in the fourth quarter of 1975 to a low of 2.93% in the third quarter of 1976. The decline was due to conditions prevailing in both Canadian and international markets.

In Canada, the difference between short term interest rates on term deposits and the prime lending rate is a major factor determining interest rate spreads. During 1975, this difference was unusually wide. In 1976, market conditions squeezed it to less than normal levels.

Internationally, in 1975 general economic uncertainties created a situation where the Royal, and other major international banks of unquestioned soundness, were able to attract deposits at very favourable rates. In 1976 more normal conditions and spreads returned to these markets.

Non-Interest Expenses



Last year, the Bank's non-interest expenses were \$738 million, an increase of 19% over 1975 levels. To be sure, the 19% increase was less than the 23% to 27% increases experienced in the previous three years. But the continuing escalation of these expenses in the face of narrowing interest rate spreads is a major management concern and is receiving priority attention.

Staff costs in 1976 were \$428 million, up 18%, or a lower rate of increase than in recent years. This reflects more effective control over both complement growth and escalation of salary levels.

Property expenses at \$112 million were 27% higher than in 1975. Automation costs have been the fastest growing component of these expenses.

In 1976, the provision for losses on loans based on the five-year average loss experience was \$66.5 million, up 33% over 1975. This higher loan loss provision reflects difficult economic conditions experienced in the last two years by some of our borrowing customers — both corporate and personal — in Canada and abroad.

The category of "other expenses" shown on the chart includes: stationery, communications, advertising, and travel expenses. As a result of a concerted management effort these costs grew by only 11% in 1976, a significantly lower rate of increase than in the preceding two years.

Summary (\$ Millions)

	1976	Increase over 1975
Spread	\$807	\$ 80
Other Operating Revenue	\$198	\$ 19
Non-Interest Expenses	\$738	\$120
Balance of Revenue Before Tax	\$267	(\$21)
Provision for Income Taxes	\$110	(\$25)
Balance of Revenue After Tax	\$157	\$ 4
Per Share	\$4.30	(\$.09)

To sum up, while spreads and other operating revenues increased by a total of \$99 million, non-interest operating expenses increased \$120 million resulting in a \$21 million or 7% reduction in pre-tax earnings. The provision for income taxes was \$110 million, \$25 million less than in 1975. Thus, balance of revenue after income taxes in 1976 was \$157 million, \$4 million higher than in the preceding year.

I would like to turn now to some of the non-financial highlights of the year's operations. In 1976, to a greater extent than most other years, the attention of many Canadians focused on banks and on banking. This created anew the opportunity to ask a very fundamental question: What does the public expect from a bank?

Two years ago, I discussed our program for a major re-organization of The Royal Bank's corporate structure. Its overall objective was to bring the decision-making process nearer to the customer interface, thereby enabling us to attune our services still more closely to the needs and expectations of the public.

In the field, in Canada, the Bank established the function of regional management within its districts. Today, a group of 45 regional managers are responsible, on average, for 35 individual branches in their respective areas. We have also provided much higher lending limits for these regional managers, thereby further decentralizing away from Head Office, decision-making in the lending process.

In the current fiscal year, further organizational changes were instituted in Quebec and in Alberta. Pierre A. Fréchette, formerly General Manager for Quebec was appointed to the newly-created post of Vice-President, Quebec. Concurrently, the more than 220 branches in that province were re-organized into two districts, Montreal and Quebec East, each headed by a General Manager.

In Alberta, the province's branches are being divided into two units, one centered on Calgary to the south, the other on Edmonton to the north, and each under the administration of an Assistant General Manager who reports to the General Manager of the district. Here again, we see the rationalization of our organization into smaller operating units as a way of enhancing service.

Continuing this evolutionary process, we are now examining the organization of our individual branches where most of the business of banking with our customers is conducted. Accordingly, we are devoting considerable attention to problems associated with management, and to educational and training programs and related activities which impact on the ability of our people to achieve a high level of performance.

We are very mindful of a considerable build-up of pressure on our branches in recent years, in part occasioned by an increase in the volume of business and in customer expectation, in part by an increase in the number and variety of banking services provided. As a result, the Royal introduced only one major new consumer service during the past year. Called "Sixty Plus", this program provides a package of free or reduced-fee banking services tailored specifically to the needs of the country's senior citizens aged sixty and over.

In any discussion of organization structure or service capability it is stating the obvious to suggest that success ultimately depends on people, and in The Royal Bank any consideration of people must focus on the status of women.

We have worked hard in this area, emphasizing training programs, and stressing our basic "promote from within" policy. I will not take time to cite detailed statistics indicating progress achieved, except to note that the number of women holding management and pre-management positions in the Bank increased 27% between last year and this, and now totals just over 2,200.

While we have no reason to be ashamed of our efforts or progress, equally we have no reason to be smug, or even satisfied. We are determined, however, to do better. Accordingly, we recently appointed a special study group, including both men and women to act as a task force on the status of women in The Royal Bank. The group is to examine our situation, and make recommendation as to what further steps, if any, we should take in the area of affirmative action programs.

Moving now from the human side of banking to the technological, I can report with confidence that The Royal Bank is well advanced in its development of computer based systems. Through our network of six main data centres and ten area centres, we provide varying degrees of automated services to the majority of our branches in Canada. Our network of 1,700 on-line terminals is one of the largest in North America and provides for the needs of about half of the Bank's deposit customers.

At the same time, we are very conscious of the impact of automation on our clients and we intend to continue emphasizing the human element in banking while taking full advantage of the cost savings inherent in automating high volume activities. In our view, the two are entirely compatible.

In keeping with longer range plans, the Bank continued to expand its branch network in Canada last year. In all, 55 new branches were opened and eleven closed, bringing the total number of branches and sub-branches in the country to 1,474.

Most spectacular of our many varied real estate projects is Royal Bank Plaza which is nearing completion in Toronto, and which will officially open this spring.

Yet, our real estate program is by no means focused on the large, the new, and the spectacular. Here, as elsewhere in our banking operations, we are becoming increasingly aware of the importance of recognizing the needs and expectations of the people we seek to serve. Accordingly, in the design of our branches and other property, we are taking into account environmental factors such as open areas and green spaces, energy conservation, urban re-development plans, the historical and cultural values of existing buildings, and many other similar factors.

In the mortgage field, The Royal Bank has a major commitment to help provide housing for Canadians. It is interesting to observe that the Bank's mortgage portfolio has grown from \$200 million in residential mortgages under administration in 1967 to just under \$3 billion at the end of last year. Of these, nearly \$2 billion were owned by the Bank, while the balance was under administration

for investors such as pension funds. In 1976 alone, the Royal committed over \$900 million for residential mortgages, the highest level in our history. These commitments are financing almost 25,000 individual housing units, 56% of them new construction.

Even this record level of commitments did not fully exhaust the resources allocated for mortgages in 1976. At the Royal, there was no shortage of mortgage money last year and, I might add, our plans for the current year call for a further substantial increase in mortgage allocations over 1976 levels.

The tens of thousands of independent or small businesses that operate in Canada make up one of the most important segments of the economy. They also comprise the backbone of the Royal's commercial business.

To meet the needs of smaller business clients more effectively, two years ago The Royal Bank established a special Independent Business Program. A basic aspect of the program is educational in nature. Under the series title "Your Business Matters", the Royal has so far published eight booklets available free of charge, which provide advice and counsel on a variety of general management and technical subjects.

In a further development of its Independent Business Program, last year we introduced our "Independent Fisherman's Plan", a flexible lending program designed to meet the particular borrowing requirements of the commercial fisherman. This program complements the Royal's highly successful "Farmplan" program, developed by our Agricultural Department, which provides a comprehensive package of financial services, including line-of-credit financing, to serve the needs of Canadian agri-business from coast to coast.

A second specialized service introduced during the year was the "Business Program for Professionals". It offers "seed money" loans to interested professionals in their graduating year and establishes a line of credit of up to \$50,000 on graduation to assist them in establishing their own business or practice.

In the corporate banking field, our Project Financing Department continues to expand both the volume and scope of its activities. During the past year, this group was involved in more than a dozen major undertakings aggregating almost half a billion dollars.

For example, the Royal led a consortium of 16 other major world banks from five countries in arranging a \$135 million financial package for the development of a sugar complex in the Republic of the Ivory Coast. At the other end of the scale, the department also assisted a family-owned Canadian manufacturing concern in financing a \$13 million expansion which could not be funded out of the company's own financial resources or through conventional bank borrowing.

Outside Canada, in 1976, uncertain business conditions prevailed in most markets and, to a considerable extent, it was a period of consolidation for our international operations. However, despite these sluggish market conditions, the division again contributed significantly to our overall growth and profitability.

The world-wide reputation for stability enjoyed by the Canadian banking system along with the Royal's stature and experience as Canada's largest international bank enabled us to continue the expansion of wholesale banking activities. This aspect of our business increased by more than half a billion dollars last year and saw the Bank manage, or co-manage some 30 major consortium loans. It is worth mentioning that this is an area where size is of significance, along with reputation and "know-how". It is a capability which will become increasingly important to Canada, both for the further expansion of export opportunities, and for the development of our own highly capital intensive resource industry projects.

Before concluding, I would like to mention the Royal's continuing involvement in a number of significant programs and activities which concern the Bank's social responsibility to the society in

which we function. There is our major consumer education program, now in its fifth year, which is designed to impart practical knowledge about intelligent money management to students and young adults. There is our sponsorship of the "grass-roots" Junior Olympics Program which last year saw more than half a million youngsters in the nine-to-nineteen-year age group participate. There is our community branch store-front banking project. And there are The Royal Bank Awards, now in their eleventh year, which last year honoured Mary Pack of Vancouver for her unrelenting crusade on behalf of the thousands of Canadians afflicted by arthritis. These undertakings are tangible evidence of the Royal's commitment to its stated corporate objective of "acting as a responsible corporate citizen whose activities benefit the community, nation and society".

In the past year, to a greater extent than in many others, I have had the opportunity to visit in Canada with many members of staff at all levels. These meetings serve as a useful reminder that people are the Bank's most important single resource.

To the 34,600 men and women of The Royal Bank in Canada and abroad belongs the credit for the year's accomplishments that I have just outlined. Their dedication to the task of making the Royal an even better place to bank is responsible for the gratifying results attained in a year in which the business environment was far from easy.

The decennial revision of the Bank Act, soon to be introduced in Parliament, holds promise of further changes in the way we go about our business. Undoubtedly, it will bring new opportunities and, almost certainly, more and varied competition. Hopefully, the legislation will be positive and serve to strengthen a financial system already rated by many as the finest in the world.

All of us at The Royal Bank are looking forward to the challenge of attaining new levels of achievement in this kind of an environment.

It was moved by Mr. W. O. Twaits, C.C. and seconded by Mr. Ian D. Sinclair—

THAT the Directors' Report and the Annual Statement for the financial year ended October 31, 1976, as well as the Auditors' Reports with respect to the Statements included in the Annual Statement be adopted.

The Chairman then stated that the motion was open for discussion. There being no discussion, the Chairman then put the motion to the meeting. A ballot was taken and, upon receiving the Scrutineers' Report of the balloting, the Chairman declared the motion duly carried.

It was moved by Mr. John A. Armstrong and seconded by Mr. F. M. Covert, Q.C.—

THAT Mr. Robert M. Rennie, C.A. of Touche Ross & Co. and Mr. Douglas J. Low, C.A. of Deloitte, Haskins & Sells, be and they are hereby appointed to be the auditors of the Bank until the next ensuing Annual General Meeting of the Shareholders, and that their remuneration be fixed at a sum not to exceed \$250,000 to be divided between them.

The Chairman then stated that the motion was open for discussion. There being no discussion, the Chairman then put the motion to the meeting. A ballot was taken and, upon receiving the Scrutineers' Report of the balloting, the Chairman declared the motion duly carried.

It was moved by Mr. Ian A. Barclay and seconded by Mr. Clifford S. Malone:—

THAT W. Earle McLaughlin, J. K. Finlayson, W. D. H. Gardiner, Rowland C. Frazee, W. L. Arthur, T. S. Dobson, B. J. McGill, J. C. McMillan, H. E. Wyatt and A. R. Taylor, executive officers of The Royal Bank of Canada, and each of them acting alone, be and he is hereby appointed the true and lawful attorney of The Royal Bank of Canada, for and in the name of The Royal Bank of Canada, to attend and vote or appoint proxies to attend and vote at any and all meetings of the shareholders of each corporation controlled by the Bank and of any and every other corporation any of whose outstanding shares are for the time being held by the Bank, and at any and all adjournments of such meetings in respect of the shares held by the Bank in any such corporation, the foregoing to remain in full force and effect until the next Annual General

Meeting of the Shareholders of The Royal Bank of Canada.

The Chairman then stated that the motion was open for discussion. There being no discussion, the Chairman then put the motion to the meeting. A ballot was taken and, upon receiving the Scrutineers' Report of the balloting, the Chairman declared the motion carried.

The Chairman declared the meeting open for the nomination of directors. Mr. T. Cecil Davis nominated the following persons to be Directors of the Bank:

The Rt. Hon. Lord Adeane, D. S. Anderson, John A. Armstrong, Ian A. Barclay, T. J. Bell, M.C., G. H. Blumenauer, G. Allan Burton, D.S.O., E.D., LL.D., R. B. Cameron, O.C., D.S.O., A. B. Christopher, John H. Coleman, Frank B. Common, Jr., Q.C., F. M. Covert, O.B.E., D.F.C., Q.C., L. G. DesBrisay, The Hon. Paul Desruisseaux, Q.C., Mitzi S. Dobrin, J. E. L. Duquet, Q.C., G. Campbell Eaton, M.C., C.D., J. K. Finlayson, Rowland C. Frazee, W. D. H. Gardiner, Kelly H. Gibson, Floyd D. Hall, Sir Charles Hardie, C.B.E., George Heffelfinger, David S. Holbrook, L. G. Lumbers, P.L.P. Macdonnell, Q.C., Clifford S. Malone, F. C. Mannix, J. Pierre Maurer, W. Earle McLaughlin, J. P. Monge, Pierre A. Nadeau, Paul Paré, Neil F. Phillips, Q.C., Herbert C. Pinder, Claude Pratte, Q.C., Charles I. Rathgeb, A. M. Runciman, Pierre A. Salbaing, P. R. Sandwell, Ian D. Sinclair, P. N. Thomson, John A. Tory, Q.C., W. O. Twaits, C.C., Colin W. Webster, C. N. Woodward. Mr. P. B. Papachristidis seconded the nominations.

The Chairman then asked if there were any further nominations.

It was moved by: J. N. Cole and seconded by Mr. David B. Weldon:—

THAT the nominations be closed and that each of the persons nominated be elected a Director of the Bank.

The Chairman then stated that the motion was open for discussion. There being no discussion, the Chairman then put the motion to the meeting. A ballot was taken and, upon receiving the Scrutineers' Report of the balloting, the Chairman declared the motion duly carried.

Mr. Frank B. Common, Jr., Q.C. expressed the thanks of the Shareholders to the Executive Vice-President and Chief General Manager as well as the officers and staff of the Bank for the efficient manner in which they have performed their respective duties.

Mr. Rowland C. Frazee replied on behalf of the officers and Mr. J. M. Walker replied on behalf of the staff.

The Chairman asked if there was any further business to come before the meeting. He then recognized Archbishop Edward W. Scott, Primate of the Anglican Church of Canada and Moderator of the Central Committee of the World Council of Churches.

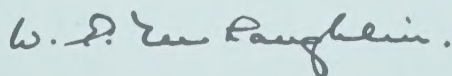
Mr. Scott expressed concerns of the Task-force on the Churches and Corporate Responsibility over reported loans by the Bank to the Governments of Chile and South Africa. Two shareholders, Mr. William R. Davis and Mrs. Renate Pratt, indicated support of the Archbishop's views.

The Chairman replied that the requirement of banker/client responsibility and the private nature of the Bank's assessment of risk inhibited detailed discussion. He said the Bank continues to reject proposals that blanket embargoes be applied to loans to any country or government, except where such embargoes are applied by law, and that the Bank specifically recognizes and accepts responsibility for the social consequences of its actions.

There being no further business to transact, the Chairman declared the Meeting terminated.



(signed) L. A. TAYLOR
Secretary



(signed) W. EARLE McLAUGHLIN
Chairman

